

# MMDT

## Short Term Bond Fund

2012 INVESTMENT CIRCULAR



**COMMONWEALTH OF MASSACHUSETTS  
DEPARTMENT OF THE STATE TREASURER**

ROOM 227  
STATE HOUSE  
BOSTON, MA 02133

**Dear Government Financial Professional:**

Thank you for your interest in The Massachusetts Municipal Depository Trust (MMDT or Trust). Now in its 34th year, MMDT was established by the Commonwealth to provide an alternative investment vehicle for local governments. Its focus on providing competitive returns and stability has made it a trusted investment option for agencies, authorities, commissions, boards, cities, towns and other public entities in the Commonwealth of Massachusetts.

MMDT offers investors a choice of two funds—the Cash Portfolio, which features consistent and competitive yields at a low cost, and the Short Term Bond Fund (STBF), for investors looking for a fixed-income alternative or for a longer investment time horizon. Both funds provide investors with extensive credit research and experience.\*

The benefits of the Trust are attributed to its solid track record of growth. At the end of its first fiscal year, the Trust served 124 participants with \$65.6 million in assets. As of June 30, 2011, 628 participants invested approximately \$8.9 billion in public funds in the MMDT portfolios.

This investment circular provides more information on the benefits of STBF, including its ease of use and flexibility. This flexibility includes the ability to make deposits in any amount for any period of time. In addition, dividends accrue daily, including weekends and holidays.

STBF also offers convenient liquidity since with-

drawals may be made by wire at any time with no penalties or added charges. In addition, for added convenience, withdrawals and purchases may be made and account information can be obtained online through MMDTNet, the MMDT's Internet-based account management system.

The many benefits of the Short Term Bond Fund—its investments in high quality returns, exceptional customer service, and access to proven, innovative account management technology—have played a vital role in helping treasury managers of local governments gain peace of mind.

This investment circular provides more information about the services and benefits that the MMDT Short Term Bond Fund has to offer. I invite you to read it carefully and to contact the

Trust's Administrator with any questions at 1-800-392-6095 or visit <https://advisor.fidelity.com/mmdtnet>.

Again, thank you for interest in MMDT.

Sincerely,



Steven Grossman

Treasurer and Receiver General  
Commonwealth of Massachusetts

\*Past performance is no guarantee of future results.

# Table of Contents



*This circular is the only authorized source of definitive information regarding investment in the Massachusetts Municipal Depository Trust Short Term Bond Fund. Participants should read and retain it for future reference.*

|  |    |
|--|----|
| Structure and Purpose .....  | 1  |
| Authority for Organization .....   | 1  |
| Investment Objectives .....  | 1  |
| Investment Policies and Restrictions .....   | 2  |
| Online Access to MMDT .....  | 4  |
| Participant Accounts .....   | 4  |
| Large Redemption Warning Calls .....   | 4  |
| Investing in the Short Term Bond Fund .....  | 5  |
| Redemptions .....  | 6  |
| Transfers Between Accounts .....   | 7  |
| Closing an Account .....   | 7  |
| Exchanges .....  | 7  |
| New Treasurer Authorization .....  | 7  |
| Available Forms .....  | 7  |
| Audit Confirmation Request .....   | 7  |
| Business Days .....  | 8  |
| Dividends and Capital Gains .....  | 8  |
| Transaction Summaries and Statements .....   | 8  |
| How Dividend and Capital Gains, Yield,<br>and Net Asset Value Are Determined ..... | 9  |
| Expenses of the Short Term Bond Fund .....   | 9  |
| Continuing Disclosure Obligations .....  | 10 |
| Annual Audit .....   | 10 |
| Legal Considerations .....   | 11 |
| Trust Investment Advisor,<br>Servicing Agents, and Custodian .....                 | 11 |
| Advisory Board .....   | 11 |
| Changes in Policies and Regulations .....  | 11 |
| Risks .....  | 12 |



## Structure and Purpose

**The Massachusetts Municipal Depository Trust (MMDT or Trust) offers the MMDT Short Term Bond Fund (STBF), an investment pool for the Commonwealth and its political subdivisions to invest assets. The primary purpose of the MMDT Short Term Bond Fund is to offer participation in a diversified portfolio of investment-grade debt securities that seeks to obtain a high level of current income consistent with preservation of capital.**

**Participation in the Trust is open to the Commonwealth and its political subdivisions, including the following:**

- Cities, towns, and counties
- Housing and redevelopment authorities
- Public retirement systems
- Regional transit authorities
- Regional school districts
- Most special purpose districts and authorities
- State and community colleges
- Certain state and local public agencies

## Authority for Organization

In 1975, the General Court of the Commonwealth enacted legislation permitting the Massachusetts State Treasurer (State Treasurer), with the advice of the Investment Advisory Council, to establish one or more combined investment funds, and to offer participation units in such funds to agencies, authorities, commissions, boards, political subdivisions, and other public units. In addition, statutes were amended making purchase of such participation units a legal investment for funds in the custody of such public units (M.G.L. Ch. 29, Sec. 38A) and state and local retirement boards (M.G.L. Ch. 32, Sec. 23(2)(b)). The enabling legislation also requires the State Treasurer to adopt appropriate accounting procedures to determine the exact earnings of each participant.

Accordingly, the State Treasurer established the Massachusetts Municipal Depository Trust to provide an investment pool entirely separate from other financial activities of the Commonwealth. The State Treasurer serves as the Trustee, and has sole authority pertaining to rules, regulations, and operations of the Trust.

A participant's holdings in the Trust are not subject to creditors of the Commonwealth, nor will the Trust itself be affected by the financial difficulties of any participant. Further, M.G.L. Ch. 44, Sec. 55A, provides that certain local officials, who in good faith and with the exercise of due care purchase units of the Trust, shall not be personally liable to their cities or towns for the loss of funds invested in the Trust due to the Trust's closure.

## Investment Objectives

The investment objective of the MMDT Short Term Bond Fund is to generate long-term performance exceeding the Barclays Capital 1–5 Year Government/Credit Bond Index by investing in a diversified portfolio of investment-grade short-term fixed-income securities. The duration of the portfolio will approximate the duration of the Barclays Capital 1–5 Year Government/Credit Bond Index.

## Investment Policies and Restrictions

**Pyramis Global Advisors Trust Company (the “Trust’s Investment Advisor”) will seek to achieve the STBF’s investment objective of generating returns that exceed the Barclays Capital 1–5 Year Government/Credit Bond Index (the “benchmark”) through investments in investment-grade fixed-income securities. Investments in the MMDT Short Term Bond Fund (the “Portfolio”) may include, but are not limited to, the following types of fixed-income securities:**

- i. Debt obligations issued or guaranteed by the U.S. government, U.S. government agencies, or U.S. government-sponsored corporations or agencies.
- ii. Debt obligations of domestic and non-U.S. corporations, foreign governmental issuers, and supranationals.
- iii. Mortgage-backed securities, including collateralized mortgage obligations and commercial mortgage-backed securities, and other debt instruments backed by mortgage-backed securities.
- iv. Asset-backed securities.
- v. Debt obligations issued or guaranteed by U.S. local, city, and state governments and agencies.
- vi. Private placements, including securities defined under Rule 144A.
- vii. Derivative instruments, including futures contracts, option contracts, and swap agreements.
- viii. Other securities not represented in the benchmark, including but not limited to zero coupon bonds, medium-term notes, structured notes, floating-rate debt, and inflation protected securities.
- ix. Cash or short-term obligations, including but not limited to debt obligations issued by the U.S. government or government-sponsored agencies, commercial paper, certificates of deposit, time deposits, bankers acceptances, and repurchase agreements.
- x. Collective investment vehicles or shares of investment companies (pooled investment vehicles) that invest primarily in fixed-income securities and are managed by Fidelity Investments or its affiliates. Investments in collective investment vehicles and investment companies will be governed by the terms of the investment guidelines of such pooled investment vehicles, notwithstanding anything to the contrary herein. All management fees associated with collective investment vehicles or shares of investment companies shall be credited back to the Portfolio.

In no event will the Portfolio invest in the debt of Fidelity Investments or its affiliates.

All investments will be denominated in U.S. dollars.

Under normal circumstances, the MMDT Short Term Bond Fund will comply with the following guidelines:

- i. At time of purchase, if a security is rated, the security must be rated investment-grade (BBB-, the equivalent or higher) by one or more nationally recognized rating organizations. If a security is split rated, the higher rating shall apply. If a security is not rated by any of the nationally recognized rating agencies, such security may be purchased only if Fidelity Investments has assigned an internal investment-grade rating.





- ii. The average credit quality of the Portfolio shall be at least A-, or the equivalent. For purposes of determining the average credit quality of the Portfolio, debt obligations issued or guaranteed by the U.S. government, U.S. government agencies, and U.S. government-sponsored enterprises are deemed to carry an AAA rating.
- iii. Securities downgraded below investment grade subsequent to purchase may be held subject to Fidelity Investments' discretion. However, the Treasurer's office will be notified when a security is downgraded such that it no longer possesses an investment-grade rating. A subsequent decision to either liquidate the security within 30 days or retain the security in the Portfolio shall be at the sole discretion of the Treasurer.
- iv. At time of purchase, the maximum investment in the debt of a single issuer or asset-backed-trust will be 5% of the Portfolio. Debt obligations issued or guaranteed by the U.S. government, U.S. government agencies, and U.S. government-sponsored enterprises are exempt from this limitation.
- v. At time of purchase, the maximum investment in asset-backed securities of any single sponsor will be 10% of the Portfolio. Debt obligations issued or guaranteed by the U.S. government, U.S. government agencies, and U.S. government-sponsored enterprises are exempt from this limitation.
- vi. At time of purchase, the maximum investment in the debt of a single industry will be 25% of the Portfolio. Debt obligations issued or guaranteed by the U.S. government, U.S. government agencies, and U.S. government-sponsored enterprises are exempt from this limitation.

- vii. The interest rate sensitivity of the Portfolio generally will be managed to approximate the expected interest rate sensitivity of the benchmark. Under normal circumstances, the Portfolio's duration shall be managed to be within  $\pm$  one half year of the duration of the benchmark.

While the Trust's Investment Advisor normally purchases securities with the intention of holding them to maturity, it may, from time to time, also engage in portfolio trading in an attempt to maximize the total return on STBF assets.

The STBF yield and net asset value will change daily based on changes in interest rates and other market conditions. While the STBF's assets will be invested in investment grade instruments as previously described above, investment in the STBF is not without risk. For example, an increase in interest rates or a decrease in the credit quality of the issuer of one of the STBF investments could cause the STBF's unit price to decrease. If securities are sold before their maturity, their value may be more or less than par due to changes in value when interest rates rise or fall. Securities with longer maturities can be more sensitive to interest rate changes. Short-term securities tend to react to changes in short-term interest rates. Changes in the financial condition of an issuer, changes in specific economic or political conditions that affect a particular type of issuer, and changes in general economic or political conditions can affect the credit quality or value of an issuer's securities. Entities providing credit support or a maturity-shortening structure also can be affected by these types of changes. If the structure of a security fails to function as intended, the security could decline in value. The Trust's Investment Advisor invests assets only with issuers whose creditworthiness and compliance with the applicable statutes and policies have been reviewed and found satisfactory by the Trust's Investment Advisor, and approved by the Treasurer.

## Online Access to MMDT

Technology is today's driver. Whether at home or in the workplace, you will find some technology-based tool designed to make your life easier, more efficient, or more productive. MMDTNet has been created to help you with your work at the office. From account management to information sources, MMDTNet can be one of your most important online work tools. MMDTNet is an Internet-based application that allows participants of the Trust to obtain quotes and yields, view account information, process transactions such as purchases and redemptions, download forms and account reports, and obtain market information. Log on to <https://advisor.fidelity.com/mmdtnet>.



## Participant Accounts

A municipality may open as many accounts as it desires. An account may be opened with a zero balance and maintained until activated with an initial deposit. A completed application must precede an initial deposit by wire and must either precede or coincide with an initial deposit by check. Each application should designate the person(s) authorized to effect transactions on the account(s), and should include verification of signatures and authority of the person(s) authorized to act. For additional information and forms for establishing an account, call the MMDT Client Services Team at 1-800-392-6095, or visit MMDTNet to print out an account application.

## Large Redemption Warning Calls

To assist the Trust's Investment Advisor in managing the STBF effectively, we ask that participants provide one-day advance notice for investments or redemptions from \$1 million to \$5 million, or two-day advance notice for investments or redemptions in excess of \$5 million by calling the MMDT Client Services Team at 1-800-392-6095.

## Investing in the Short Term Bond Fund

Investments in the STBF may be made on any business day in one of four ways, as described below.

### 1. By Wire:

Investments in any STBF account may be made by wiring federal funds. All purchases by wire must be accompanied by a telephone call to the MMDT Client Services Team at 1-800-392-6095, or online through MMDTNet. The following information should be included on the wire advice in order to ensure proper credit:

ABA#: 0110-0002-8  
State Street Bank and Trust Company  
Boston, Massachusetts 02101  
BNF: Massachusetts Municipal Depository Trust  
Short Term Bond Fund  
AC: 4444-436-2  
OBI = Your fund and account number

Purchases by wire that are preceded by a telephone call to the MMDT Client Services Team or online through MMDTNet before 4:00 p.m. ET will be made at the next net asset value (NAV) calculated after your wire is received and will begin to accrue dividends on the first business day following the day the STBF receives payment. The telephone call to the MMDT Client Services Team must identify the amount, the name of the account to be credited, and the STBF account number.

### 2. By Mail:

Investments in any STBF account may be made by sending a check payable to the Massachusetts Municipal Depository Trust to:

Massachusetts Municipal Depository Trust  
P.O. Box 55367  
Boston, Massachusetts 02205-5367

Check purchases will receive the next NAV calculated after your investment is received in proper form.

Check purchases begin to accrue dividends on the first business day following the day the STBF receives payment. Two business days should be allowed following credit for a check to clear the bank on which it was drawn. Funds may be withdrawn only on collected balances. Purchase checks should be accompanied by a deposit slip that includes the total amount of the investment, amounts of the individual checks, and the STBF account number. Please note that the STBF does not accept cash deposits. Supplies of deposit slips are available by calling 1-800-392-6095.

### 3. Automated Clearing House (ACH):

To discuss ACH options, please call the MMDT Client Services Team at 1-800-392-6095.

### 4. Direct Deposit:

Direct deposits of certain federal aid and state reimbursements can be arranged. Funds will be credited at the next NAV calculated after your investment is received by the Trust's Administrator; your investment will begin to accrue dividends on the first business day following the day the STBF receives payment, and may be redeemed by wire the following business day. For further information and necessary forms, please call 1-800-392-6095.



## Redemptions

**Redemption of all or any part of a collected balance in an account may be made on any business day, as noted below.**

### **1. By Wire:**

Call 1-800-392-6095 or visit MMDTNet to redeem any amount of your available balance and have it wired in federal funds to any designated bank account authorized in writing by an authorized official. All wire redemption requests must be received before 4:00 p.m. ET to be wired the next business day. Dividends are earned until, but not including, the next business day following the day of redemption. For your protection, funds may be wired only to those bank accounts designated in writing by an authorized official. There is no limit to the number of bank accounts that may be designated on the Trust Administrator's records. Bank wire changes may not be made directly on MMDTnet. Please call the MMDT Client Services Team at 1-800-392-6095 for instructions to designate additional bank accounts for redemptions.

Participants may initiate redemption transactions by telephone or electronically. Note that neither the Trust nor the Trust's Investment Advisor will be responsible for any losses resulting from an unauthorized redemption transaction if it follows reasonable security procedures designed to verify the identity of the caller. The Trust Administrator may record calls or request other verification information for security purposes. For redemption transactions conducted through the Internet, the use of an Internet browser with 128-bit encryption is recommended. The participant should verify the accuracy of its confirmation statements upon receipt and notify the Trust's Administrator immediately of any discrepancies in its account activity. If you do not want the ability to sell and exchange by telephone, call 1-800-392-6095 for instructions.





## Transfers Between Accounts

Transfers between accounts of the same participant can be made by calling the MMDT Client Services Team at 1-800-392-6095, electronically through MMDTNet, or by sending written notification to:

Massachusetts Municipal Depository Trust  
P.O. Box 55367  
Boston, Massachusetts 02205-5367

Transfer requests made to the MMDT Client Services Team or online by 4:00 p.m. ET on any business day will be processed the same day.

Participants who wish to establish special authorization for the payment of assessments by transfer between MMDT accounts should call the MMDT Client Services Team at 1-800-392-6095 for instructions and necessary forms. Transfers between accounts of different municipal entities cannot be made without previous written authorization.

## Closing an Account

Participants who wish to bring an account to a zero balance should call the MMDT Client Services Team at 1-800-392-6095 to receive proper instructions for withdrawing the balance. Accounts that are closed during any given month will receive the accrued dividends at the time of distribution.

## Exchanges

You can request an exchange (move money from one investment option to another) by calling the MMDT Client Services Team at 1-800-392-6095 or visiting MMDTNet. Transaction requests received after the close of the market, normally 4 p.m. ET, or on weekends or holidays, will receive the next business day's (or next calculated) closing price. Fidelity reserves the right to modify or withdraw the exchange privilege.

## New Treasurer Authorization

A New Treasurer Authorization form should be filed with the Trust Administrator when a participant's Treasurer or other authorized official changes. The Trust Administrator is authorized to rely on the existing form and card until the proper authorization has been filed. Information and the necessary forms are available by calling 1-800-392-6095 or by visiting MMDTNet.

## Available Forms

Participants may obtain any MMDT forms they require by calling the MMDT Client Services Team at 1-800-392-6095 or by visiting MMDTNet.

## Audit Confirmation Request

Auditors should send requests for confirmations of account balances directly to the Trust Administrator as follows:

Massachusetts Municipal Depository Trust  
P.O. Box 55367  
Boston, Massachusetts 02205-5367

An authorized official of the municipality must sign the auditor's request form or letter.

## Business Days

The Trust's Investment Advisor is open for business and the Trust's NAV per unit is calculated each day on which both the Federal Reserve Bank of Boston and the New York Stock Exchange are open. In the event the Federal Reserve Bank of Boston and the New York Stock Exchange are closed on different days in observance of the same holiday, the Trust's Investment Advisor will follow the New York Stock Exchange closing schedule. All holiday announcements will be available on MMDTNet prior to the upcoming holiday. Additionally, one week prior to the holiday, a taped announcement will be available by calling the MMDT Client Services telephone line at 1-800-392-6095.

The following are the holidays or their observances on which either the Federal Reserve Bank of Boston or the New York Stock Exchange normally are closed:

New Year's Day  
Dr. Martin Luther King, Jr., Day  
Presidents Day  
Good Friday  
Memorial Day  
Independence Day  
Labor Day  
Columbus Day  
Veterans Day  
Thanksgiving Day  
Christmas Day

The Trust reserves the right to suspend the right of redemption or to postpone the date of payment on redemption for any period during which an emergency exists (including any day on which trading on the New York Stock Exchange is suspended or restricted), as a result of which disposal of the Portfolio securities owned by the STBF is not reasonably practicable, or it is not reasonably practicable to determine the fair value of its net assets. The State Treasurer shall have the sole authority to determine when suspensions of business shall be made.

## Dividends and Capital Gains

Dividends accrue on a daily basis and are paid at the declared daily rate on the actual number of units of participation in the account. The STBF normally pays capital gain distributions in June and December. Your dividends and capital gain distributions will automatically be reinvested into the account unless otherwise instructed by an authorized official. Dividend amounts are available the next business day by calling the MMDT Client Services Team at 1-800-392-6095 or by visiting MMDTNet. Quotations of the performance are also available by calling the MMDT Client Services Team or by visiting MMDTNet.

## Transaction Summaries and Statements

A transaction summary of each transaction reflecting the date, amount, type of transaction processed, and the resulting account balance will be sent promptly by mail for each transaction. A monthly account statement reflecting all transactions for the month, the dividend paid, the fiscal year-to-date dividends, and any paid checks will be sent after the close of each month, normally within five business days. This monthly statement is provided in lieu of an immediate confirmation for each transaction pursuant to Municipal Securities Rulemaking Board Rule G-15. Participants who wish to receive only monthly statements or who require information regarding the current status of any account should call the MMDT Client Services Team at 1-800-392-6095. Account information is also available through MMDTNet.

***Participants receive monthly account statements.***

## How Dividend and Capital Gains, Yield, and Net Asset Value Are Determined

### Dividend and Capital Gains

The STBF earns interest, dividends, and other income from its investments, and distributes this income (less expenses) to participants as dividends. The STBF also realizes capital gains from its investments, and distributes these gains (less any losses) to participants as capital gains.

### Yield

The annualized seven-day and annualized monthly yields reflect an average of the yield over the past seven days or month.

A participant may call the MMDT Client Services Team at 1-800-392-6095 or visit MMDTNet for a current yield quote. The current yield refers to the income generated by an investment in the STBF over a period of time expressed as an annual percentage rate.

### Net Asset Value

The net asset value per unit of the STBF is normally calculated as of the close of business of the New York Stock Exchange, normally 4:00 p.m. Eastern time. The STBF's assets normally are valued primarily on the basis of information furnished by a pricing service or market quotations. Certain short-term securities are valued on the basis of amortized cost. If market quotations or information furnished by a pricing service is not readily available or does not accurately reflect fair value for a security, or if a security's value has been materially affected by events occurring after the close of the exchange or market on which the security is principally traded, that security will be valued by another method that the STBF's Investment Advisor believes accurately reflects fair value in accordance with the STBF's fair value pricing policies. For example, arbitrage opportunities may exist when trading in a portfolio security or securities is halted and does not resume before the STBF calculates its NAV. These arbitrage opportunities may enable short-term traders to dilute the NAV of long-term investors. Securities

trading in overseas markets present time zone arbitrage opportunities when events affecting portfolio security values occur after the close of the overseas market but prior to the close of the U.S. market. Fair value pricing may be used for high yield debt and floating rate loans when available pricing information is stale or is determined for other reasons not to accurately reflect fair value. To the extent the STBF invests in other open-end funds, the STBF will calculate its NAV using the NAV of the underlying funds in which it invests, as described in the underlying funds' prospectuses. The STBF may invest in Fidelity funds that use the same fair value pricing policies as the fund or in Fidelity money market funds. A security's valuation may differ depending on the method used for determining value. Fair valuation of STBF portfolio securities can serve to reduce arbitrage opportunities available to short-term traders, but there is no assurance that fair value pricing policies will prevent dilution of the STBF's NAV by short-term traders.

Investments in the MMDT are not a deposit of a bank and are neither insured nor guaranteed by the Commonwealth of Massachusetts, or the Federal Deposit Insurance Corporation (FDIC), or the U.S. government—or any of its agencies. Although the STBF's investment objective is to generate returns that exceed the Barclays Capital 1–5 Year Government/Credit Bond Index, there is no guarantee it will be able to do so, and it is possible to lose money by investing in the STBF.

## Expenses of the STBF

The Trust pays one all-inclusive management fee for investment management, custody, administration, and other participant services. The fee is accrued each day and is paid monthly at an annual percentage rate determined using the fee schedule that follows. The fee is paid to Pyramis Global Advisors Trust Company (Pyramis), the Trust's Investment Advisor. Pyramis is responsible for paying all operating expenses of the Trust (excluding expenses of the Trustee, brokerage fees, commissions, taxes, and extraordinary nonrecurring expenses). No direct fees are charged to participants.



| Average Net Assets<br>(\$ millions)                                   | Annualized Fee<br>Rate |
|---|------------------------|
| \$0 to \$50 million   | 0.25%                  |
| Greater than \$50 million and less<br>than or equal to \$100 million  | 0.20%                  |
| Greater than \$100 million and less<br>than or equal to \$200 million | 0.125%                 |
| Greater than \$200 million  | 0.10%                  |

Annualized fee rates are charged in a tiered fashion such that 0.25% is charged on the first \$0 to \$50 million of average net assets, 0.20% is charged on amounts in excess of \$50 million to \$100 million and so on.

**The sole Trustee of MMDT is the State Treasurer, who is supported by an Investment Advisory Council.**

## Continuing Disclosure Obligations

To the extent applicable to comply with Rule 15c2-12 (the “Rule”) under the Securities Exchange Act of 1934, on behalf of the Trust, and for the benefit of registered and beneficial unit holders of the Trust, the Trust has executed an Investment Management Agreement (the “Agreement”) that provides for the continuing disclosure of certain information as required by the Rule. Under the Agreement, Pyramis is obligated to provide certain financial information related to the STBF annually to each nationally recognized municipal securities information repository (NRMSIR), and to a recognized information depository in the Commonwealth of Massachusetts, if one exists. The Agreement further requires that Pyramis provide notice of the occurrence of certain events enumerated in the Agreement to either the Municipal Securities Rulemaking Board or each NRMSIR, and to a recognized information depository in the Commonwealth of Massachusetts, if one exists.

## Annual Audit

PricewaterhouseCoopers LLP, an independent registered public accounting firm, will audit the Trust’s financial statements following the close of each fiscal year. The audit will include a physical count of securities held by the custodian, State Street Bank and Trust Company, and a review of the adequacy of controls through a systems review and evaluation. An annual report including the Auditor’s opinion will be issued to each participant of record as of June 30, the close of the Trust’s fiscal year. Pyramis will pay all costs of conducting the audit and issuing the annual report.





## Legal Considerations

MMDT is not a mutual fund and is exempted from the Investment Company Act of 1940. An investment in MMDT is not a deposit of a bank and is not insured or guaranteed by the FDIC, or the Commonwealth of Massachusetts, or the U.S. government—or any of its agencies. For more information about MMDT's structure, please see "Structure and Purpose" and "Authority for Organization."

## Trust Investment Advisor, Servicing Agents, and Custodian

The Trust has retained as its investment advisor Pyramis Global Advisors Trust Company (Pyramis), a Fidelity Investments Company. Pursuant to a contract dated June 30, 2010, including any extensions thereto, Pyramis provides the Trust with advice and assistance in the selection of portfolio investments. Pyramis also provides all necessary office space, facilities, and personnel; assists in providing participant communications; pays all expenses of the fund (see "Expenses of the STBF"); and generally maintains the fund's organization. Pyramis manages a variety of equity and fixed-income strategies for institutional investors.

Fidelity Investments Institutional Services Company, Inc. (FIIS), provides ongoing communications and education services for members and participants. FIIS is reimbursed by Pyramis for providing these services to the Trust.

Fidelity Investments Institutional Operations Company, Inc. (FIOC, or Trust Administrator), is transfer agent to the Trust and provides such services as maintaining and servicing participant account records and distributing dividends. FIOC is reimbursed by Pyramis for providing these services to the Trust. Fidelity Service Company, Inc. (FSC), determines the NAV and income distributions of the Trust assets and maintains the portfolio and general accounting records for the Trust. FSC is reimbursed by Pyramis for providing these services to the Trust.

State Street Bank and Trust Company of Boston (State Street) has been selected as custodian of the assets of the Trust. State Street has one of the largest custody operations in the industry. Pyramis

reimburses State Street for providing custody services to the Trust.

## Advisory Board

An Advisory Board, whose members have been chosen by the State Treasurer, has been established to serve as a liaison to participants in the Trust, the State Treasurer as Trustee of the Trust, and the Trust's Investment Advisor. The Board is comprised of officials of municipalities eligible to participate in the Trust and a representative of the State Treasurer, and meets periodically.

## Changes in Policies and Regulations

Under the Trust's enabling legislation and Declaration of Trust, the Treasurer of the Commonwealth has the sole authority to make changes in the policies and regulations governing the operations of the Trust, and to take certain actions that could increase the expenses of the Trust to account holders. The authority to declare suspensions of business exists primarily to protect unit holders in the event of unusual or unforeseen circumstances arising in the fund's operations. At the present time, the Treasurer has no plans to use such authority except in the event of emergencies such as those described in "Business Days," or if the Treasurer determines that failure to act under the circumstances could have a material adverse effect upon the unit holders of the STBF Trust. The Treasurer hereby assures participants that no actions either changing the STBF Investment Policies and Restrictions or increasing the expenses of the STBF will be initiated without prior written notice to all affected parties unless such changes are made pursuant to legislation.

Unless otherwise noted, whenever an investment policy or limitation states a maximum percentage of the STBF Trust's assets that may be invested in any security or other asset, or sets forth a policy regarding quality standards, such standard or percentage limitation will be determined immediately after and as a result of the fund's acquisition of such security or other asset. Accordingly, any subsequent change in values, net assets, or other circumstances will not be considered when determining whether the investment complies with the fund's investment policies and limitations.

## Risks

The following pages provide a brief description of securities in which the STBF's assets may be invested, the principal risks associated with the investments, as well as transactions the Trust's Investment Advisor may initiate on behalf of the STBF. The Trust's Investment Advisor is not limited by this discussion, however, and may purchase other types of securities and enter into other types of transactions if they are consistent with the investment objectives and policies and the statutory requirements to which the STBF is sub-

**Asset-Backed Securities** represent interests in pools of mortgages, loans, receivables, or other assets. Payment of interest and repayment of principal may be largely dependent upon the cash flows generated by the assets backing the securities and, in certain cases, supported by letters of credit, surety bonds, or other credit enhancements. Asset-backed security values may also be affected by other factors including changes in interest rates, the availability of information concerning the pool and its structure, the creditworthiness of the servicing agent for the pool, the originator of the loans or receivables, or the entities providing the credit enhancement. In addition, these securities may be subject to prepayment risk.

**Cash Management.** The STBF can hold uninvested cash or can invest it in cash equivalents such as money market securities, repurchase agreements, or shares of money market or short-term bond funds. Generally, these securities offer less potential for gains than other types of securities.

**Dollar-Weighted Average Maturity** is derived by multiplying the value of each investment by the time remaining to its maturity, adding these calculations, and then dividing the total by the value of the fund's portfolio. An obligation's maturity is typically determined on a stated final maturity basis, although there are some exceptions to this rule.

For example, if it is probable that the issuer of an instrument will take advantage of a maturity-shortening device, such as a call, refunding, or redemption provision, the date on which the instrument will probably be called, refunded, or redeemed may be considered to be its maturity date. Also, the maturities of mortgage securities, including collateralized mortgage obligations and some asset-backed securities, are determined on a weighted average life basis, which is the average time for principal to be repaid. For a mortgage security, this average time is calculated by estimating the timing of principal payments, including unscheduled prepayments, during the life of the mortgage. The weighted average life of these securities

is likely to be substantially shorter than their stated final maturity.

**Rights as an Investor.** The STBF does not intend to direct or administer the day-to-day operations of any company. The STBF, however, may exercise its rights as a creditor and may communicate its views on important matters of policy to management, the Board of Directors, shareholders of a company, and holders of other securities of the company when MMDT determines that such matters could have a significant effect on the value of the fund's investment in the company. The activities in which the STBF may engage, either individually or in conjunction with other funds advised by the Trust's Investment Advisor and its affiliates, may include, among others, supporting or opposing proposed changes in a company's corporate structure or business activities; seeking changes in a company's directors or management; seeking changes in a company's direction or policies; seeking the sale or reorganization of the company or a portion of its assets; supporting or opposing third-party takeover efforts; supporting the filing of a bankruptcy petition; or foreclosing on collateral securing a security. This area of corporate activity is increasingly prone to litigation and it is possible that the STBF could be involved in lawsuits related to such activities. MMDT, through its advisor, will monitor such activities with a view to mitigating, to the extent possible, the risk of litigation against a fund and the risk of actual liability if the STBF is involved in litigation. No guarantee can be made, however, that litigation against the STBF will not be undertaken or liabilities incurred.

**Futures Contracts.** In purchasing a futures contract, the buyer agrees to purchase a specified underlying instrument at a specified future date. In selling a futures contract, the seller agrees to sell a specified underlying instrument at a specified future date. The price at which the purchase and sale will take place is fixed when the buyer and seller enter into the contract. Some currently available futures contracts are





based on specific securities, such as U.S. Treasury bonds or notes, some are based on indices of securities prices, and some are based on Eurodollars. Futures can be held until their delivery dates, or can be closed out by an offsetting purchase or sale before then if a liquid secondary market is available.

Positions in Eurodollar futures reflect market expectations of forward levels of three-month London Interbank Offered Rate (LIBOR) rates.

The value of a futures contract tends to increase and decrease in tandem with the value of its underlying instrument. Therefore, purchasing futures contracts will tend to increase the STBF's exposure to positive and negative price fluctuations in the underlying instrument, much as if it had purchased the underlying instrument directly. When the STBF sells a futures contract, by contrast, the value of its futures position will tend to move in a direction contrary to the market. Selling futures contracts, therefore, will tend to offset both positive and negative market price changes, much as if the underlying instrument had been sold.

**Futures Margin Payments.** The purchaser or seller of a futures contract is not required to deliver or pay for the underlying instrument unless the contract is held until the delivery date. However, both the purchaser and seller are required to deposit "initial margin" with a futures broker, known as a futures commission merchant (FCM), when the contract is entered into. Initial margin deposits are typically equal to a percentage of the contract's value. If the value of either party's position declines, that party will be required to make additional "variation margin" payments to settle the change in value on a daily basis. The party that has a gain may be entitled to receive all or a portion of this amount. Initial and variation margin payments do not constitute purchasing securities on margin for purposes of the STBF's investment limitations. In the event of the bankruptcy of a FCM that holds margin on behalf of the STBF, the fund may be entitled to return of margin owed to it only in proportion to the amount received by the FCM's other customers, potentially resulting in losses to the fund.

**Swap Agreements** can be individually negotiated and structured to include exposure to a variety of different types of investments or market factors. Depending on

their structure, swap agreements may increase or decrease the STBF's exposure to long- or short-term interest rates (in the United States or abroad), foreign currency values, mortgage securities, corporate borrowing rates, or other factors such as security prices or inflation rates. Swap agreements can take many different forms and are known by a variety of names, including interest rate swaps (where the parties exchange a floating rate for a fixed rate), total return swaps (where the parties exchange a floating rate for the total return of a security or index), and credit default swaps (where one party pays a fixed rate and the other agrees to buy a specific issuer's debt at par upon the occurrence of certain agreed events, including for example, if the issuer is bankrupt, defaults on any of its debt obligations, or makes arrangements with a creditor to modify a debt obligation).

In a typical cap or floor agreement, one party agrees to make payments only under specified circumstances, usually in return for payment of a fee by the other party. For example, the buyer of an interest rate cap obtains the right to receive payments to the extent that a specified interest rate exceeds an agreed-upon level, while the seller of an interest rate floor is obligated to make payments to the extent that a specified interest rate falls below an agreed-upon level. An interest rate collar combines elements of buying a cap and selling a floor.

Swap agreements will tend to shift the STBF's investment exposure from one type of investment to another. For example, if the fund agreed to exchange payments in dollars for payments in foreign currency, the swap agreement would tend to decrease the fund's exposure to U.S. interest rates and increase its exposure to foreign currency and interest rates. Caps and floors have an effect similar to buying or writing options. Depending on how they are used, swap agreements may increase or decrease the overall volatility of a fund's investments and its share price and yield. Swap agreements also may allow the STBF to acquire or reduce credit exposure to a particular issuer. The most significant factor in the performance of swap agreements is the change in the factors that determine the amounts of payments due to and from the STBF. If a swap agreement calls for payments by the fund, the fund must be prepared to make such payments when due. In the case of a physically settled credit default swap written by the fund, the fund must be prepared to pay par for and take possession of eligible debt of a defaulted issuer. If a swap counter-



party's credit-worthiness declines, the risk that it may not perform may increase, potentially resulting in a loss to the fund. In the case of a credit default swap written by the fund, the fund will experience a loss if a credit event occurs and the credit of the underlying referenced entity (the debt issuer as to which credit protection has been written) has deteriorated. Although there can be no assurance that the fund will be able to do so, the fund may be able to reduce or eliminate its exposure under a swap agreement either by assignment or other disposition, or by entering into an offsetting swap agreement with the same party or a similarly creditworthy party. The fund may have limited ability to eliminate its exposure under a credit default swap if the credit of the underlying referenced entity has declined.

**Illiquid Securities** cannot be sold or disposed of in the ordinary course of business at approximately the prices at which they are valued. Difficulty in selling securities may result in a loss or may be costly to the fund. In determining the liquidity of the fund's investments, the Trust's Investment Advisor may consider various factors, including (1) the frequency and volume of trades and quotations, (2) number of dealers and prospective purchasers in the marketplace, (3) dealer undertakings to make a market, and (4) the nature of the security and the market in which it trades (including any demand, put, or tender features; the mechanics and other requirements for transfer; any letters of credit or other credit enhancement features; any ratings; the number of holders, the method of soliciting offers; the time required to dispose of the security; and the ability to assign or offset the rights and obligations of the security).

**Indexed Securities** are instruments whose prices are indexed to the prices of other securities, securities indices, currencies, inflation measures, or other financial indicators.

Indexed securities typically, but not always, are debt securities or deposits whose value at maturity or coupon rate is determined by reference to a specific instrument, statistic, or measure. Inflation-protected securities, for example, can be indexed to a measure of inflation, such as the Consumer Price Index (CPI).

The performance of indexed securities depends to a great extent on the performance of the security, currency, or other instrument or measure to which they are indexed, and may also be influenced by interest rate changes in the United States and abroad. Indexed securities may be more volatile than the underlying instruments or measures. Indexed securities are also subject to the credit risks associated with

the issuer of the security, and their values may decline substantially if the issuer's creditworthiness deteriorates. Recent issuers of indexed securities have included banks, corporations, the U.S. Treasury, and certain other U.S. government agencies. In calculating the STBF's dividends, index-based adjustments may be considered income.

**Investment-Grade Debt Securities** include all types of debt instruments that are of medium and high-quality. Investment-grade debt securities include repurchase agreements collateralized by U.S. Government securities as well as repurchase agreements collateralized by equity securities, non-investment-grade debt, and all other instruments in which the STBF can perfect a security interest, provided the repurchase agreement counterparty has an investment-grade rating. Investment-grade debt securities may possess speculative characteristics and may be sensitive to interest rate and economic changes and to changes in the financial conditions of issuers. An investment-grade rating means the security or issuer is rated investment-grade by a nationally recognized statistical rating organization (for example, Moody's Investors Service, Inc.), or is unrated but considered to be of equivalent quality by the Trust's Investment Advisor.

**Mortgage Securities** are issued by government and non-government entities such as banks, mortgage lenders, or other institutions. A mortgage security is an obligation of the issuer backed by a mortgage or pool of mortgages or a direct interest in an underlying pool of mortgages. Some mortgage securities, such as collateralized mortgage obligations (or "CMOs"), make payments of both principal and interest at a range of specified intervals; others make semi-annual interest payments at a predetermined rate and repay principal at maturity (like a typical bond). Mortgage securities are based on different types of mortgages, including those on commercial real estate or residential properties. Stripped mortgage securities are created when the interest and principal components of a mortgage security are separated and sold as individual securities. In the case of a stripped mortgage security, the holder of the "principal-only" (PO) security receives the principal payments made by the underlying mortgage, while the holder of the "interest-only" (IO) security receives interest payments from the same underlying mortgage. Fannie Mae and Freddie Macs are pass-through securities issued by Fannie Mae and Freddie Mac, respectively. Fannie

Mae and Freddie Mac, which guarantee payment of interest and repayment of principal on Fannie Maes and Freddie Macs, respectively, are federally chartered corporations supervised by the U.S. government that act as governmental instrumentalities under authority granted by Congress. Fannie Mae and Freddie Mac are authorized to borrow from the U.S. Treasury to meet their obligations. Fannie Mae and Freddie Mac are not backed by the full faith and credit of the U.S. government.

The value of mortgage securities may change due to shifts in the market's perception of issuers and changes in interest rates. In addition, regulatory or tax changes may adversely affect the mortgage securities market as a whole. Non-government mortgage securities may offer higher yields than those issued by government entities, but also may be subject to greater price changes than government issues. Mortgage securities are subject to prepayment risk, which is the risk that early principal payments made on the underlying mortgages, usually in response to a reduction in interest rates, will result in the return of principal to the investor, causing it to be invested subsequently at a lower current interest rate. Alternatively, in a rising interest rate environment, mortgage security values may be adversely affected when prepayments on underlying mortgages do not occur as anticipated, resulting in the extension of the security's effective maturity and the related increase in interest rate sensitivity of a longer-term instrument. The prices of stripped mortgage securities tend to be more volatile in response to changes in interest rates than those of non-stripped mortgage securities.

To earn additional income for the STBF, the Trust's Investment Advisor may use a trading strategy that involves selling (or buying) mortgage securities and simultaneously agreeing to purchase (or sell) mortgage securities on a later date at a set price. This trading strategy may increase interest rate exposure and result in an increased portfolio turnover rate, which increases costs and may increase taxable gains.

**Preferred Securities** represent an equity or ownership interest in an issuer that pays dividends at a specified rate and that has precedence over common stock in the payment of dividends. In the event an issuer is liquidated or declares bankruptcy, the claims of owners of bonds take precedence over the claims of those who own preferred securities and common stock.

**Real Estate Investment Trusts.** Real estate investment trusts issue debt securities to fund the purchase and/or development of commercial properties. The value of these debt securities may be affected by changes in the value of the underlying property owned by the trusts, the creditworthiness of the trusts, interest rates, and tax and regulatory requirements. Real estate investment trusts are dependent upon management skill and the cash flow generated by the properties owned by the trusts. Real estate investment trusts are at the risk of the possibility of failing to qualify for tax-free status of income under the Internal Revenue Code.

**Repurchase Agreements** involve an agreement to purchase a security and to sell that security back to the original seller at an agreed-upon price. The resale price reflects the purchase price plus an agreed-upon incremental amount which is unrelated to the coupon rate or maturity of the purchased security. As protection against the risk that the original seller will not fulfill its obligation, the securities are held in a separate account at a bank, marked-to-market daily, and maintained at a value at least equal to the sale price plus the accrued incremental amount. The value of the security purchased may be more or less than the price at which the counterparty has agreed to purchase the security. In addition, delays or losses could result if the other party to the agreement defaults or becomes insolvent. The fund will engage in repurchase agreement transactions with parties whose creditworthiness has been reviewed and found satisfactory by the Trust's Investment Advisor.

**Restricted Securities** are subject to legal restrictions on their sale. Difficulty in selling securities may result in a loss or be costly to the STBF. Restricted securities generally can be sold in privately negotiated transactions, pursuant to an exemption from registration under the Securities Act of 1933 (1933 Act), or in a registered public offering. Where registration is required, the holder of a registered security may be obligated to pay all or part of the registration expense, and a considerable period may elapse between the time it decides to seek registration and the time it may be permitted to sell a security under an effective registration statement. If, during such a period, adverse market conditions were to develop, the holder might obtain a less favorable price than prevailed when it decided to seek registration of the security.

**Reverse Repurchase Agreements.** In a reverse repurchase agreement, the STBF sells a security to another party, such as a bank or broker-dealer, in return for cash—and agrees to repurchase that security at an agreed-upon price and time. The fund will enter into reverse repurchase agreements with parties whose creditworthiness has been reviewed and found satisfactory by the Trust's Investment Advisor. Such transactions may increase fluctuations in the market value of fund assets and the STBF's yield and may be viewed as a form of leverage.

**Securities Lending.** The STBF may lend securities to parties such as broker-dealers or other institutions, including Fidelity Brokerage Services LLC (FBS LLC). FBS LLC is a member of the New York Stock Exchange (NYSE) and an indirect subsidiary of FMR Corp.

Securities lending allows the STBF to retain ownership of the securities loaned and, at the same time, earn additional income. The borrower provides the fund with collateral in an amount at least equal to the value of the securities loaned. The fund maintains the ability to obtain the right to vote or consent on proxy proposals involving material events affecting securities loaned. If the borrower defaults on its obligation to return the securities loaned because of insolvency or other reasons, the STBF could experience delays and costs in recovering the securities loaned or in gaining access to the collateral. These delays and costs could be greater for foreign securities. If the STBF is not able to recover the securities loaned, the fund may sell the collateral and purchase a replacement investment in the market. The value of the collateral could decrease below the value of the replacement investment by the time the replacement investment is purchased. Loans will be made only to parties deemed by the Trust's Investment Advisor to be in good standing and when, in the Trust Investment Advisor's judgment, the income earned would justify the risks.

Cash received as collateral through loan transactions may be invested in other eligible securities, including shares of a money market fund. Investing this cash subjects that investment, as well as the securities loaned, to market appreciation or depreciation.

**Temporary Defensive Policies.** The fund reserves the right to invest without limitation in investment-grade money market or short-term debt instruments for temporary, defensive purposes.

**Variable and Floating Rate Securities** provide for periodic adjustments in the interest rate paid on the

security. Variable rate securities provide for a specified periodic adjustment in the interest rate, while floating rate securities have interest rates that change whenever there is a change in a designated benchmark rate or the issuer's credit quality. Some variable or floating rate securities are structured with put features that permit holders to demand payment of the unpaid principal balance plus accrued interest from the issuers or certain financial intermediaries.

**When-Issued and Forward Purchase or Sale Transactions** involve a commitment to purchase or sell specific securities at a predetermined price or yield in which payment and delivery take place after the customary settlement period for that type of security. Typically, no interest accrues to the purchaser until the security is delivered.

When purchasing securities pursuant to one of these transactions, the purchaser assumes the rights and risks of ownership, including the risks of price and yield fluctuations and the risk that the security will not be issued as anticipated. Because payment for the securities is not required until the delivery date, these risks are in addition to the risks associated with the STBF's investments. If the STBF remains substantially fully invested at a time when a purchase is outstanding, the purchases may result in a form of leverage. When the STBF has sold a security pursuant to one of these transactions, the fund does not participate in further gains or losses with respect to the security. If the other party to a delayed-delivery transaction fails to deliver or pay for the securities, the STBF could miss a favorable price or yield opportunity or suffer a loss.

The STBF may renegotiate a when-issued or forward transaction and may sell the underlying securities before delivery, which may result in capital gains or losses for the fund.

**Zero Coupon Bonds** do not make interest payments; instead, they are sold at a discount from their face value and are redeemed at face value when they mature. Because zero coupon bonds do not pay current income, their prices can be more volatile than other types of fixed-income securities when interest rates change. In calculating the STBF's dividend, a portion of the difference between a zero coupon bond's purchase price and its face value is considered income.

**Client services representatives (CSRs) are available from 8:30 a.m. to 6:00 p.m. ET, Monday through Friday, to assist you.**



Services provided by Fidelity Investments Institutional Services Company, Inc. 155 Seaport Blvd., Boston, MA, 02210.

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